Expansion of Broad Money

2740. SHRI S.S. AHLUWALIA: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the expansion of Broad money (M3) during the first quarter of the current financial year has been in excess of the expansion targeted for the period;

(b) if so, the details thereof and the factors attributable thereto;

(c) whether it is also a fact that Government have not drawn/ implemented so far any comprehensive plan towards effective utilization of the burgeoning foreign exchange reserve whereas the liability towards servicing the loan part of the reserve has been growing steadily;

(d) if so, the details of loan part and other reserve separately; and

(e) whether Government have formulated any plan to bring about reduction in the service cost of FE loans along with time frame?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M.V. CHANDRASHEKHAR MURTHY): (a) and (b) The expansion of Broad Money (M3) during the first quarter of 1994-95 was of the order of Rs. 22,619 crore (5.2 per cent). As per the credit policy of R.B.I. announced on May 14, 1994, the expansion of M3 is to be contained within a range of 14-15 per cent during the full financial year 1994-95. The growth of reserve money, largely accounted for by the accretion of the net foreign exchange assets, caused this quarterly expansion. There is no quarterly target for the growth of M3 in 1994-95.

(c) The management of foreign exchange reserves is conducted in such a way as to ensure that the country's payments obligations in the form of current payments and debt service obligations are met as and when they arise. However, in a bid to contain the expansionary effect of increasing foreign exchange reserves on money supply, various measures like open market operations, higher cash reserve raio, a cap on Central Government's borrowing from the Reserve Bank of India through ad-hoc treasury bills have been initiated.

A high level of foreign exchange reserves is, however, also necessary to meet any kind of contingency in future, particularly because our economy is now more open. It also serves to inspire adequate confidence in our economy.

(d) The foreign exchange reserves which are built up largely through purchases from authorised dealers accrue to the R.B.I. as a mixture of current and capital flows. As such, their break-up into loan and other reserves is not feasible.

(e) Government have already prepaid $ 1.13 million of IMF debt in April 1994 and several options for prepaying high cost external debt are being considered in order to reduce the debt service liability.

Income Tax Exemption to People of Laddakh Region

2741. SHRI JAGDISH PRASAD MATHUR: Will the Minister of FINANCE be pleased to state:

(a) whether representatives of Laddakh region of the Jammu and Kashmir State had called on the Finance Minister in January this year to request him to revive income tax exemption to the people of the region, as it was recognised by the Central Government as Scheduled Tribe area primarily because of poor condition of trade after the Chinese aggression in 1962; and

(b) what is Government's policy in this regard?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M.V. CHANDRASHEKHAR MURTHY): (a) Yes, Sir.

(b) At the moment, Government do not intend to revive the income-tax exemption to the people of Laddakh region.